

*PUBLIC EMPLOYEES' RETIREMENT SYSTEM*

*A Component Unit of the State of Nevada*



*Popular Annual Financial Report*

*Fiscal Year Ended June 30, 2007*

**PUBLIC EMPLOYEES' RETIREMENT BOARD**

Sue DeFrancesco	Chairman	2009
Charles A. Silvestri	Vice Chairman	2011
Elizabeth Fretwell	Member	2010
Purisimo B. Hernandez	Member	2009
David F. Kallas	Member	2010
George W. Stevens	Member	2011
Warren Wish	Member	2009

Terms expire on June 30 of year noted.



Top Row (from left): Sue DeFrancesco, Chairman, Charles A. Silvestri, Vice Chairman, Elizabeth Fretwell, and Purisimo B. Hernandez

Bottom Row (from left): David F. Kallas, George W. Stevens, and Warren Wish

**RETIREMENT STAFF**

Dana K. Bilyeu	Executive Officer
Tina M. Leiss	Operations Officer
Ken Lambert	Investment Officer
Steve Edmundson	Assistant Investment Officer

Division Supervisors:

Ann Schleich	Accounting
Brian Snyder	Employer & Production Services
Oliver Owen	Information Technology
Debra Thomsen	Internal Audit
Lynette Jones	Member & Retiree Services

**LEGAL COUNSEL**

Christine Munro, Senior Deputy Attorney General, Carson City, Nevada

**MEDICAL ADVISOR**

G. Bruce Nickles, M.D., Carson City, Nevada

**POLICE AND FIREFIGHTERS' RETIREMENT FUND ADVISORY COMMITTEE**

William Loncar	Chairman	2010
Richard Tiran	Vice Chairman	2009
John Chase	Member	2010
Fred Galey	Member	2009
Raymond McAllister	Member	2008

Terms expire on June 30 of year noted.

**THE SYSTEM'S ADVISORS**

Consulting Actuary – The Segal Company, San Francisco, California  
Independent Auditors – PricewaterhouseCoopers LLP, Sacramento, California  
Investment Consultant – Callan Associates, Atlanta, Georgia

## *Mission Statement*

It is the mission of the Public Employees' Retirement System to:

- ◆ Provide public workers and their dependents with a retirement program that provides a reasonable base income for retirement or for periods where a disability has removed a worker's earning capacity.
- ◆ Encourage those workers to enter into and remain in government service for such periods of time to give public employers and the people of the State of Nevada the full benefit of their training and experience.

### **Message From Dana Bilyeu, Executive Officer**

It is a pleasure to present the Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2007. This report provides an overview of financial, investment, and statistical information in a simple, easy to understand format.

The information herein is derived from the Comprehensive Annual Financial Report (CAFR). The CAFR is produced in accordance with Generally Accepted Accounting Principles (GAAP) and is independently audited. The PAFR is intended to supplement the CAFR, not replace it. The PAFR does not include all funds administered by the Public Employees' Retirement System of Nevada (System or PERS) nor does it include certain other information required to be in conformity with GAAP.

The System was established by the Nevada Legislature in 1947. By July 1, 1949, the System had approximately 3,000 members and 64 retirees. At the end of fiscal year 2007, the System had 166 participating employers, 103,693 active members, and 35,687 retirees and beneficiaries. The System is comprised of two sub-funds, Regular, consisting of members who are not police or fire employees, and Police and Firefighters (Police/Fire). The Regular sub-fund was established to provide retirement, disability, and survivor benefits for public employees with the exception of those who are police officers or firefighters. The Police/Fire sub-fund was established to segregate accounting for retirement and survivor benefits related to members who are police officers or firefighters. All services provided by staff are performed in order to meet those objectives.

One of the principal goals of the Public Employees' Retirement Board (Board) has been to stabilize contribution rates during volatile investment market cycles and demographic changes and to ensure cost predictability to employers and members. The 2007 actuarial valuation shows that the tools the Board has put in place to meet these objectives are working, while maintaining the retirement security of all public employees.

*Fiscal Year 2007  
Highlights*

**Legislation**

The Nevada Legislature convenes on a biennial basis in odd-numbered years. During the 2007 legislative session, the Board sought only technical legislation changing the title of the statutory administrative assistant position to administrative services coordinator to better reflect the duties of this position.

Approximately fifteen separate pieces of legislation were introduced that could have affected the System. Highlights include the gradual phasing-out of the program to purchase one-fifth of a year of retirement service credit for certain education personnel. No other benefit modifications affecting PERS were approved in the 2007 session.

**System Governance**

Over the past two years, the System conducted a review of its governance process that encompassed Board and staff relations, fiduciary review, education, and the individual roles played by the Board and staff. During this past fiscal year, the Board completed a self-assessment process with the assistance of executive staff and a consultant. The Board also completed a review of compliance with the charters for the Board, Board chair, vice-chair, and executive officer. The compliance review report prepared by the System's governance consultant showed a high degree of compliance with the charters. This review resulted in minor revisions to the Board and executive officer charters in the area of disaster recovery planning to reflect current industry practices.

**Operational Initiatives**

Operations of the System are conducted in accordance with the Operational Yearly Plan. This plan is designed to organize all agency functions by department and to ensure that all duties are performed within the fiscal year. PERS' performance is measured, in part, by total member and retiree workload. During fiscal year 2007 the System completed approximately 96,000 pieces of work. Of this group, 87,000 were directly related to customer requests, with the remainder relating to back office support. Approximately 92% of all work was performed within the ten working day benchmark.

Benefit payments were made to approximately 33,000 benefit recipients monthly. The System completed 6,454 one-fifth of a year purchases for educational employees and 647 service credit audits for the Public Employees' Benefits Program. The System continued its project to move employers to web based reporting which requires employers to filter their own data before submission to the System. The System continues training employers on this tool. During fiscal year 2007 approximately 140 agencies were reporting wage and contribution information in this manner.

PERS now has a full year of experience with Las Vegas counselors connected to the call center. This project enhanced our service to members and retirees through the reduction in wait time on the telephone and provided better uniformity in service for the northern and southern regions of the state. PERS



continued participation in a benchmarking analysis service in fiscal year 2007. The purpose of the analysis was to help PERS understand how our total administrative costs and service levels compare to our peers. The most recently completed report shows that PERS provides a good level of service to the members and beneficiaries at a cost below the median for its peers.

The Third Annual Liaison Officer Conference was held in Reno on November 14, 2006. The conference gave the System an opportunity to provide valuable information about the System to the liaison officers as a group. This conference included break-out sessions tailored to the different roles performed by the liaison officer and payroll personnel. Reviewing the conference attendee surveys completed at the end of the conference reveals 97% of attendees rated the conference good or excellent.

### **Information Technology**

The System continued to work to improve the functionality of the website for our members, retirees, and employers. Significant modifications were made to reduce browsing complexities for members and retirees. PERS' forms were made available online in PDF format to allow members and retirees to type their information directly on the form prior to printing the form. In addition, loading speed of wage and contribution reporting was increased to improve efficiency for employers. PERS maintained its security certification through an information technology security consultant and continues to participate in this security review on an ongoing basis.

### **Strategic Planning**

Strategic and tactical planning are key to the successful management of the System. These plans must address both external and internal elements ranging from financial market analysis to federal legislative efforts to member relations. The System annually reviews the Strategic Plan for updates, including both additions and deletions. The revision of the Strategic Plan made during fiscal year 2007 was the first revision after the Board adopted the policy regarding strategic planning and budgeting through the governance initiative.

The revision to the Strategic Plan included the following sections: Introduction, Mission, Philosophy, Core Values, Organization and History, Goals and Objectives, Strategies, Internal Assessment, External Assessment, and Performance and Caseload Indicators. Three of these sections (Introduction, Core Values, and Organization and History) are new to this year's Strategic Plan. The order of the sections was revised to enhance usability, and language was modified in the Internal Assessment and External Assessment sections to reflect legislative changes and provide a progress update. The Strategic Plan was made available on the System's website for the first time this fiscal year.

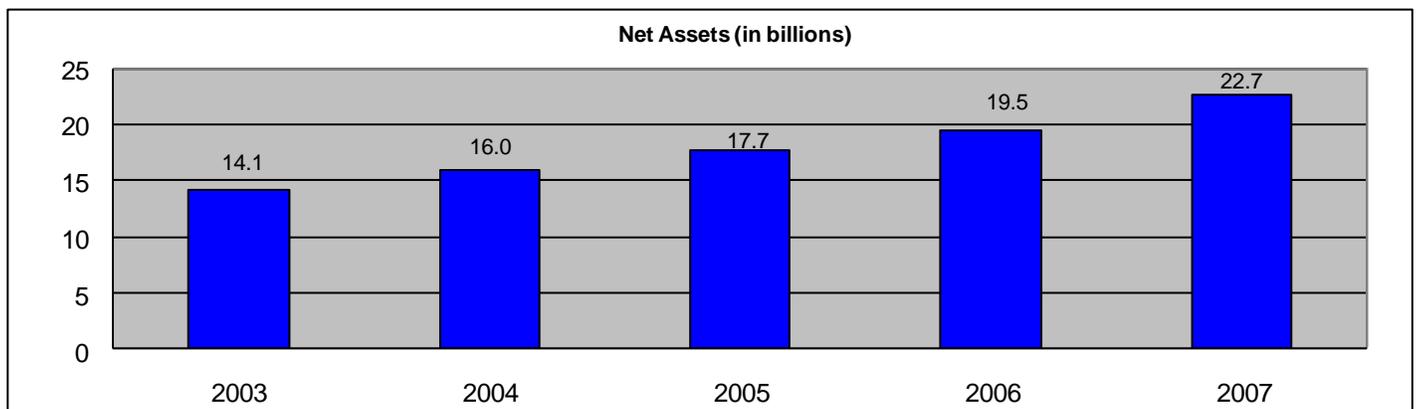
## *Financial Highlights*

Net assets increased by \$3.2 billion or 16.2% to \$22.7 billion as of June 30, 2007.

Total net investment income was \$2.9 billion in fiscal year 2007, an increase from \$1.6 billion in fiscal year 2006.

Total investments, excluding securities lending collateral, at June 30, 2007, increased by \$3.1 billion or 15.9% to \$22.8 billion.

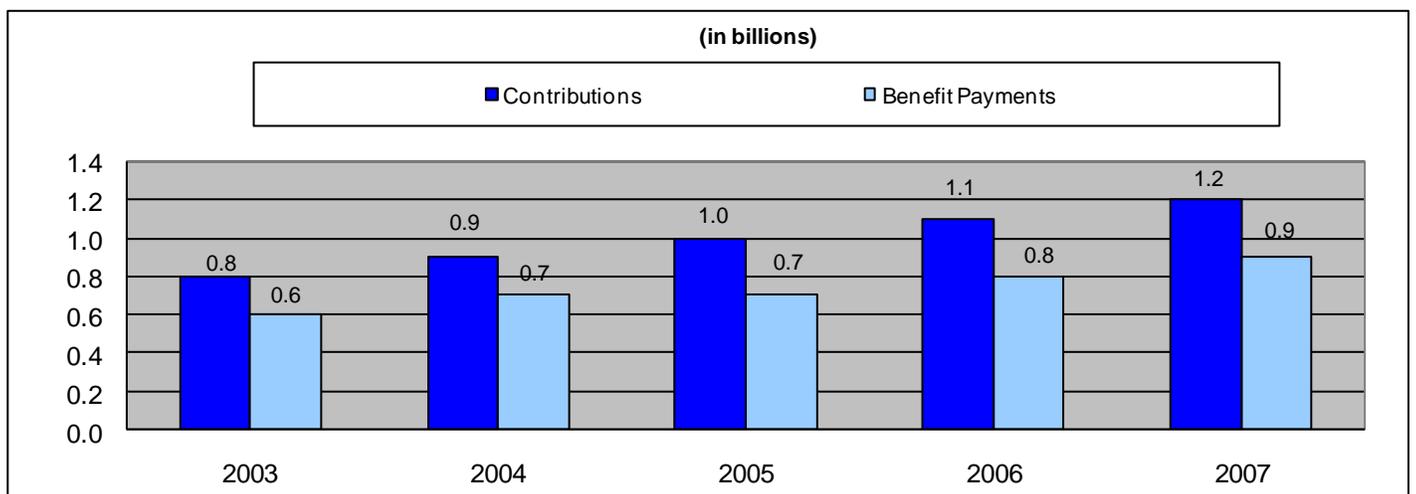
As of June 30, 2007, the most recent actuarial valuation, the System was 77.2% funded, compared to a funding level of 74.9% as of June 30, 2006.



Total contributions for fiscal year 2007 increased by \$91.2 million or 8.4% to \$1.2 billion.

Benefit payments for fiscal year 2007 increased by \$96.8 million or 11.6% to \$929.4 million.

Refunds of contributions increased by \$3.6 million or 25.7% to \$17.4 million.



The increase in net assets held in trust for pension benefits is higher for 2007 than it has been in the past several years. This can be attributed primarily to an overall investment return of 15.0% (8.8% for fiscal year 2006). The strong investment performance was influenced by above average returns from U.S. equities, international equities, and alternative investments, although all asset classes experienced positive results for the year.

Contributions increased consistently with prior years. However, this number is influenced to some degree from year to year due to the unpredictability in the number and amount of purchases of service.

Benefit payments continue to increase at a consistent rate from year to year. We expect this to continue as the “baby-boomer” population moves from active employment into retirement.

## POPULAR ANNUAL FINANCIAL REPORT

The Summary Comparative Statement of Fiduciary Net Assets is a summary of the net assets available to pay future payments and gives a snapshot at a particular point in time.

### Summary Comparative Statement of Fiduciary Net Assets

	As of June 30, 2007	As of June 30, 2006
Total assets	\$27,052,244,143	\$22,153,165,633
Total payables	<u>(4,350,884,185)</u>	<u>(2,610,282,021)</u>
<b>Net assets available for benefits</b>	<b><u>\$22,701,359,958</u></b>	<b><u>\$19,542,883,612</u></b>

The Summary Comparative Statement of Changes in Fiduciary Net Assets shows the flow of money in and out of the fund during the year.

### Summary Comparative Statement of Changes in Fiduciary Net Assets

	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006
Total additions	\$4,115,846,295	\$2,654,665,957
Total deductions	<u>(957,369,949)</u>	<u>(859,373,559)</u>
Net change	<u>3,158,476,346</u>	<u>1,795,292,398</u>
Net assets, beginning of year	<u>19,542,883,612</u>	<u>17,747,591,214</u>
<b>Net assets, end of year</b>	<b><u>\$22,701,359,958</u></b>	<b><u>\$19,542,883,612</u></b>



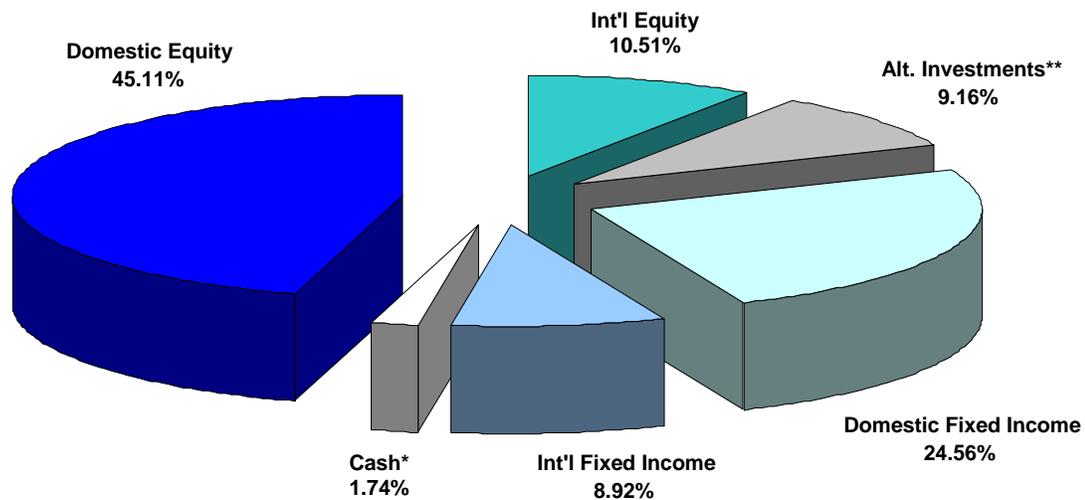
## Investments

The System's ability to provide retirement benefits to its members is influenced by the performance of the investment portfolio. Approximately 14% of the benefits the average member will receive in retirement are funded from contributions. The remaining 86% are generated from investment earnings.

The investment portfolio is designed to meet the funding objectives of the System while taking the least possible risk. This cautious stance is defined by the prudent person standard outlined in the statute which sets guidelines for the System's administration. The standard states that the Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence acquire or retain for their own account. By establishing a well diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.

Asset allocation is one of the most important factors in designing an investment portfolio to provide protection against large fluctuations in portfolio returns and to stabilize the overall investment earnings. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one investment that is not favored by the market should be offset by another which is doing well. The Board annually reviews the estimated returns and risks associated with major types of investments to determine the best blend of investments that will meet the risk/return comfort level for the PERS portfolio. The following chart shows the asset mix at June 30, 2007.

**PERS' investment portfolio is diversified to control risk and maximize return under a variety of economic conditions.**



\*Includes cash held by investment managers.

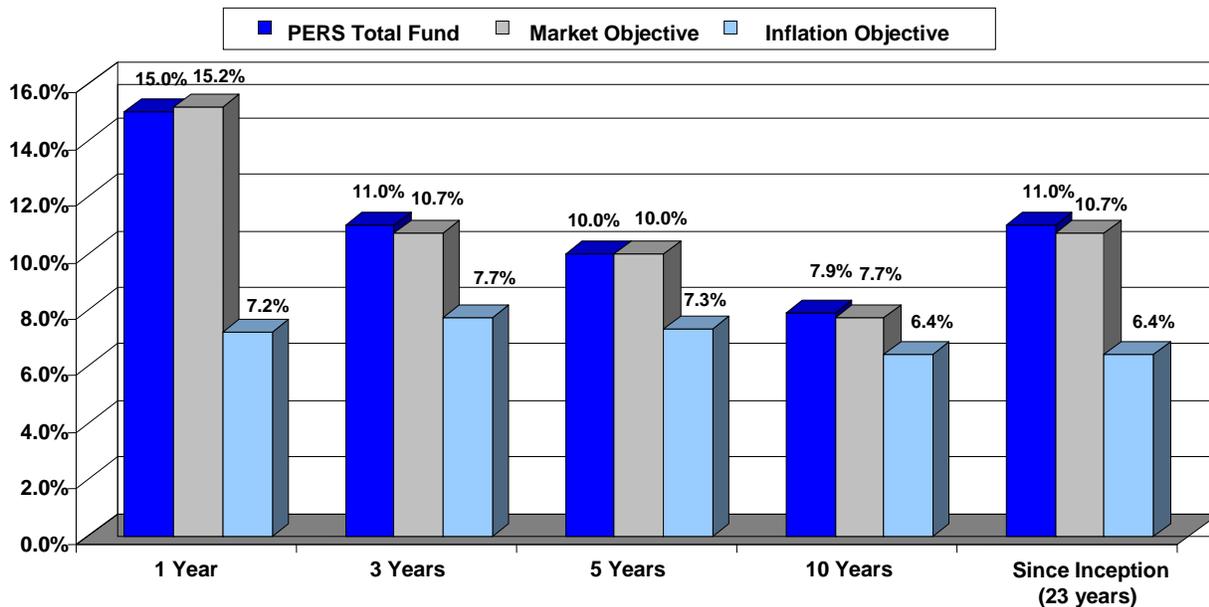
\*\*Includes 1.66% Private Equity, 2.86% REITS, and 4.64% Private Real Estate.

## POPULAR ANNUAL FINANCIAL REPORT

The portfolio return is compared to specific benchmarks as a way of evaluating the fund's performance. The chart below illustrates PERS' portfolio performance over a variety of time periods. The fair value of the System's investment assets at the end of fiscal year 2007 was \$22.8 billion. The fund's annualized rate of return is 11.0% since inception (23 years) versus the long-term actuarial objective of 8.0%. The fund is competitive on a risk-adjusted basis, ranking in the top 10% of public funds for that same timeframe.

**Your retirement system generated a 15.0% return in fiscal year 2007.**

**Annualized Total Returns vs. Market Objective and Inflation Objectives  
Periods Ended June 30, 2007**



Multiple performance objectives are utilized to monitor the fund at the total portfolio and asset class level. Those objectives include:

- |                               |   |   |
|-------------------------------|---|---|
| Total Fund                    | - | 8.0% long-term return which exceeds the rate of inflation (CPI) by 4.5% by capturing market returns within each asset class.  |
| <b>Asset Class Objectives</b> |   |   |
| U.S. Stock                    | - | S&P 500 Stock Index   |
| International Stock           | - | Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index (unhedged)   |
| U.S. Bonds                    | - | Lehman Aggregate Bond Index   |
| International Bonds           | - | Citigroup Non-Dollar Government Bond Index  |
| Alternative Investments       | - | Blended return (based on PERS actual allocation) of: the National Council of Real Estate Investment Fiduciaries (NCREIF) private real estate Index, Wilshire Real Estate Investment Trust (REIT) Index, and S&P 500 Index + 4%. |



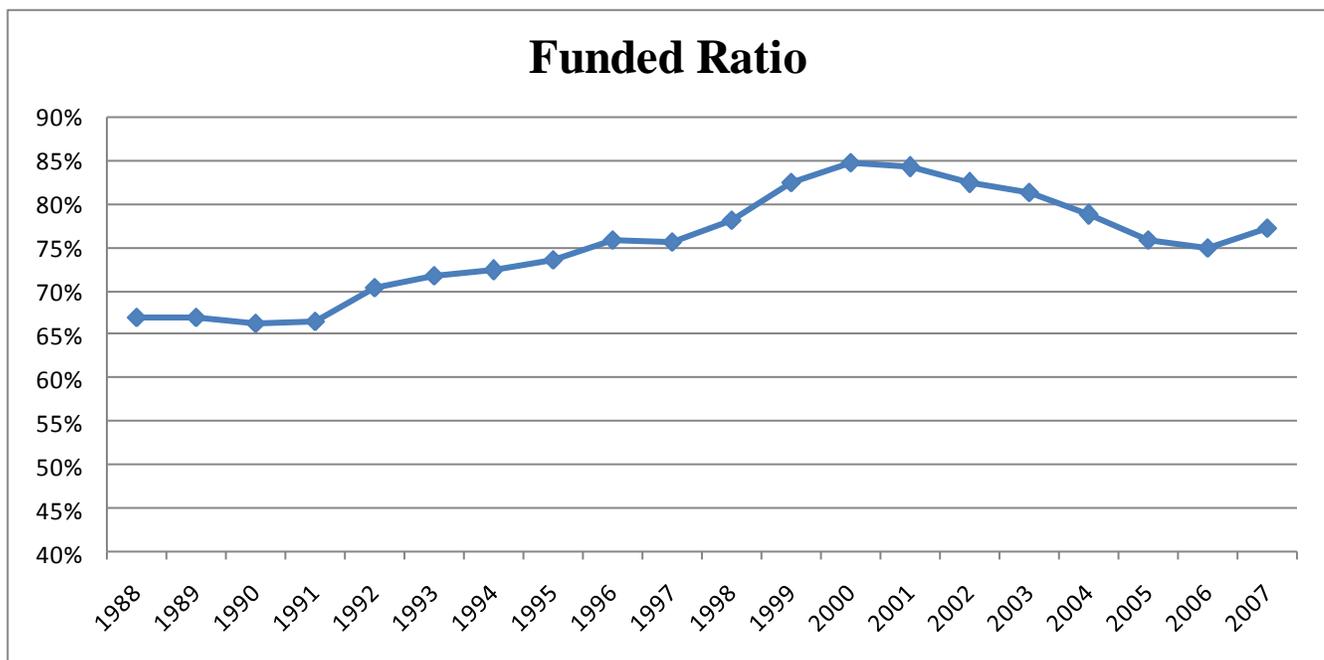
## *Actuarial*

One measure of a pension fund's health is its funded status. To determine the funded status, we compare the assets available to the benefits we must pay. One factor to keep in mind is that all benefits the System is obligated to pay are not due and payable immediately. The System's funding objective is to pay long-term benefits through contributions (and investment return on such contributions) that remain relatively level from year to year. The amount contributed is a percentage of the salaries earned by members. Using this methodology members and employers each pay equally for retirement service accrued by active members in any given year. In order to ensure benefits are available to you, PERS is constantly evaluating the plan's assets relative to the value of the liabilities.

Contribution rates have remained stable during a negative market cycle. According to PERS' actuary, The Segal Company, the plan is strong and sound per their annual review. Although the System receives an annual actuarial valuation indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the rates established by the Nevada Legislature.

### **Funded Ratio**

The funded ratio at June 30, 2007, is 77.2%. This is an increase of 2.3% from fiscal year 2006. The funded ratio of PERS has been relatively stable during the volatile market cycle. While the System's funded ratio went down in the period from 2001 to 2006, the conservative nature of PERS' investment strategy has metered the impact investment losses have had on the overall funded ratio of the System. Below is a chart showing the funding levels of PERS over the last two decades.



### *Membership*

Our motto at PERS is “Dedicated to Those Who Serve Nevada.” To that end, during fiscal year 2007 we:

- Answered 138,714 telephone inquiries from members and benefit recipients
- Received 424,332 hits at the PERS website
- Responded to more than 4,026 emails
- Provided individual counseling to approximately 9,768 members and benefit recipients
- Conducted 255 informational programs that were attended by more than 10,670 PERS members, benefit recipients, and others
- Processed 2,769 retirement, survivor, and disability benefit applications
- Made benefit payments to approximately 35,000 beneficiaries with a total annual benefit payroll exceeding \$929 million
- Hosted an employer conference that was attended by 149 representatives from 74 employers

PERS participates in a performance benchmarking service designed to review the System’s operational performance. The most recently completed (FY 2006) analysis showed that PERS provides a good level of service at substantially lower administration costs than other peer retirement systems. Our adjusted administrative cost was \$60 per active member and annuitant versus the peer median of \$70 and the peer average of \$78. Our staff administered 2,084 active members and annuitants per full-time equivalent versus the peer median of 1,616 active members and annuitants per full-time equivalent.

The analysis estimates what our cost should be per active member and annuitant based on our transaction types and volume. This cost is referred to as our total benchmark cost. For fiscal year 2006 our total benchmark cost was \$108 per active member and annuitant compared to our actual cost of \$60 per active member and annuitant.

Web functionality has been implemented for our benefit recipient population, providing retirees with on-line access to individual benefit accounts. Information available to retirees includes deduction screens, check screens, address and bank routing screens, as well as 1099R information.

The chart below shows a ten-year history of both the active and retired membership of PERS. As you can see, total membership has experienced an annual increase of approximately 4.75% over the past ten years. The number of active members has increased at a slower rate than the rate of increase in retired and retired disabled members. As a result, the number of active members per retired/retired disabled member (excluding beneficiaries and survivors) has changed from 4.4 active members per retiree in 1998 to 3.3 active members per retiree in 2007.

**Retirement System Membership  
1998 to 2007**

<b><u>June 30</u></b>	<b><u>Active Members</u></b>	<b><u>Inactive Members</u></b>	<b><u>Retired and Disabled Members</u></b>	<b><u>Beneficiaries &amp; Survivors</u></b>	<b><u>Total Membership</u></b>
1998	74,693	4,511	16,993	2,843	99,040
1999	77,252	5,212	18,038	2,984	103,486
2000	80,834	5,592	19,482	3,153	109,061
2001	82,890	6,276	20,827	3,250	113,243
2002	85,224	6,965	22,011	3,524	117,724
2003	87,327	7,687	23,371	3,669	122,054
2004	90,242	7,829	24,938	3,830	126,839
2005	93,995	9,182	26,962	4,037	134,176
2006	98,187	10,309	29,025	4,237	141,758
2007	103,693	10,990	31,262	4,425	150,370

*Statistics*

**Average Age and Service Statistics for Active Members\***

	<u>1998</u>	<u>2007</u>
Regular members:		
Average age	43.7	45.0
Average years of service	8.2	8.3
Police/Fire members:		
Average age	39.2	39.3
Average years of service	9.5	9.7

**Average Salaries for Members\***

	<u>Regular</u>	<u>Increase</u>		<u>Police/Fire</u>	<u>Increase</u>
June 30, 1998	\$32,714			\$44,987	
1999	33,397	2.1 %		45,283	0.7 %
2000	35,185	5.4		48,857	7.9
2001	36,615	4.1		50,587	3.5
2002	38,106	4.1		55,628	10.0
2003	39,193	2.9		56,907	2.3
2004	40,069	2.2		59,008	3.7
2005	40,901	2.1		61,277	3.8
2006	41,929	2.5		64,250	4.9
2007	43,355	3.4		66,316	3.2
Annual increase 1998 – 2007		3.2 %			4.4 %

\* Information provided by The Segal Company

## Average Benefit Payments

<u>June 30</u>		<u>Regular Members</u>	<u>Police/Fire Members</u>
1998	Average monthly benefit	\$1,466	\$2,229
	Average monthly compensation at retirement	\$3,512	\$4,915
	Number of new retirees	1,258	201
	Average years of service at retirement	18.67	21.43
	Average age at retirement	58	54
2007	Average monthly benefit	\$2,216	\$3,549
	Average monthly compensation at retirement	\$4,800	\$7,421
	Number of new retirees	2,678	299
	Average years of service at retirement	18.93	22.55
	Average age at retirement	60	55

# POPULAR ANNUAL FINANCIAL REPORT

## Principal Participating Employers

<b>1998</b>			
Participating Agencies	Covered Employees	Rank	Percentage of Total System
Clark County School District	18,118	1	24.25%
State of Nevada	11,929	2	15.97
Washoe County School District	5,741	3	7.69
Clark County	4,981	4	6.67
Las Vegas Metropolitan Police Department	2,666	5	3.57
University Medical Center of Southern Nevada	2,661	6	3.56
Washoe County	2,596	7	3.48
City of Las Vegas	2,295	8	3.07
University of Nevada Reno	1,820	9	2.44
Department of Transportation	1,530	10	2.05
Subtotal	54,337		72.75%
All other	20,356		27.25%
Total 1998 (138 Agencies)	74,693		100.00%
<b>2007</b>			
Participating Agencies	Covered Employees	Rank	Percentage of Total System
Clark County School District	31,447	1	30.33%
State of Nevada	15,307	2	14.76
Clark County	7,429	3	7.16
Washoe County School District	7,279	4	7.02
Las Vegas Metropolitan Police Department	4,853	5	4.68
University Medical Center of Southern Nevada	3,778	6	3.64
Washoe County	2,936	7	2.83
City of Las Vegas	2,921	8	2.82
University of Nevada Reno	2,180	9	2.10
City of Henderson	2,018	10	1.95
Subtotal	80,148		77.29%
All other	23,545		22.71%
Total 2007 (166 Agencies)	103,693		100.00%



## *Reporting Standards*

Financial data presented in this report is derived from the information contained in PERS' CAFR. However, it does not include all funds administered by PERS nor contain other information required to be in conformity with GAAP. PERS' CAFR is produced in conformity with GAAP. Please contact PERS if you would like to request a copy of the CAFR.

## *Contact Information*

### **Office Locations:**

693 W. Nye Lane  
Carson City, Nevada  
89703  
(775) 687-4200  
Fax: (775) 687-5131  
Toll Free: 1-866-473-7768

5820 S. Eastern Avenue  
Suite 220  
Las Vegas, Nevada  
89119  
(702) 486-3900  
Fax: (702) 678-6934

Website: [www.nvpers.org](http://www.nvpers.org)

### **Business Hours**

8:00 a.m. – 5:00 p.m., Monday - Friday

